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9 March 1979

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National Intelligence Daily (Cable)

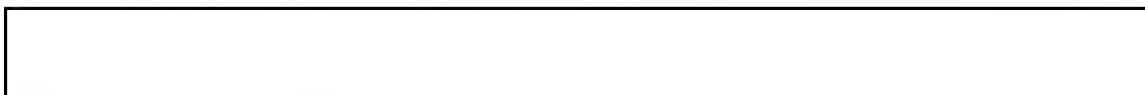
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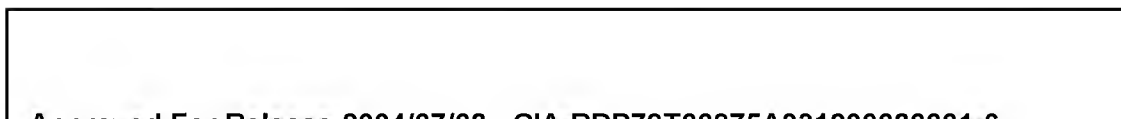
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SITUATION REPORTS

VIETNAM-CHINA-USSR

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Hanoi radio yesterday accused the Chinese of mounting new attacks along a wide stretch of the border region. The Vietnamese allege that the Chinese had shelled the Lai Chau, Lao Cai, Cao Bang, and Lang Son areas and also mounted "nibbling" attacks in many of these areas.

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In apparent response, the Chinese news agency issued a report charging that the Vietnamese military had attempted to interfere with the Chinese withdrawal from northern Vietnam on 6, 7, and 8 March, and that Chinese troops counterattacked in each instance. Continued Chinese charges of Vietnamese interference might indicate that Beijing was laying the groundwork for a prolongation of its military occupation of the border region, but this initial Chinese report makes no assertion that the withdrawal is being delayed as a result of the fighting.

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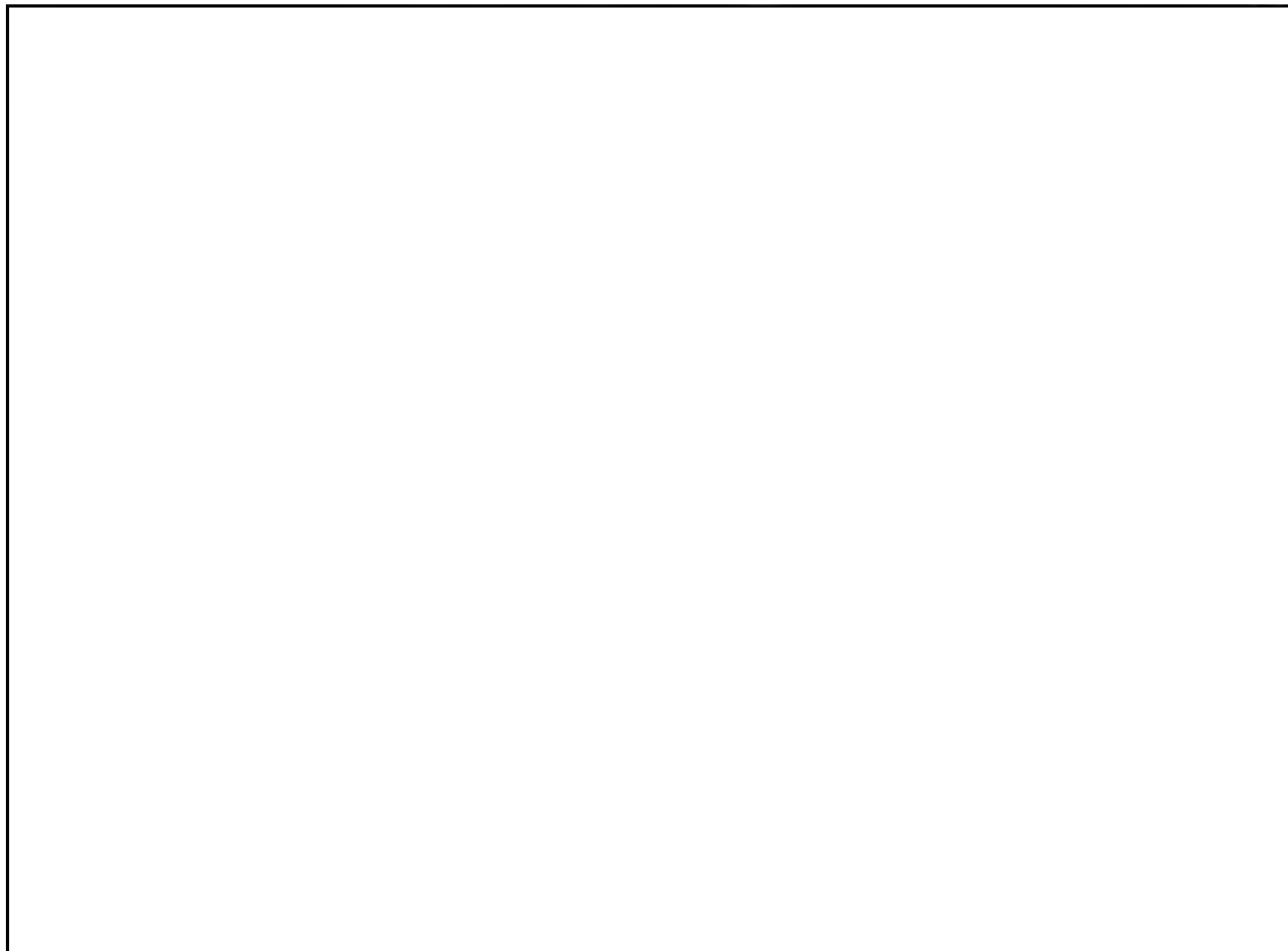
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The Soviets are finally beginning to deal less cautiously and more directly with the Chinese withdrawal after several days of considerable skepticism about its actual implementation. Yesterday, a Soviet first secretary in Beijing told a US Embassy officer that the Chinese invasion was a failure that had weakened Beijing's prestige throughout the world. In other commentary, the Soviets are suggesting that had it not been for their own greater equity in maintaining Soviet-US relations they might have become involved in the confrontation.

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TASS yesterday reported charges by a Vietnamese Vice Foreign Minister at a press conference in Manila that the Chinese are sending reinforcements and that there can be no talks if the Chinese continue to expand operations in Vietnam. TASS broadcasts monitored on Wednesday were less skeptical about the Chinese withdrawal. The rebroadcast

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of the Vietnamese charges probably reflects Soviet intentions to follow the Vietnamese lead and not a change in Soviet perception that a Chinese withdrawal is in fact under way. [REDACTED]

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The entry of Soviet naval vessels into Vietnamese ports has aroused the concern of the Japanese Foreign Ministry. A senior Japanese official said yesterday that the ministry was concerned that continued use of the port at Da Nang by the Soviets would lead to its conversion to a Soviet military base. Such a development would run counter to assurance given the Japanese last December by the Vietnamese Foreign Minister. According to the official, the Japanese would consider diplomatic steps in connection with the new developments. [REDACTED]

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BRIEFS AND COMMENTS

USSR: Reaction to President Carter's Middle East Visit

The Soviets are attempting to use their media outlets to establish a connection between events in Iran and President Carter's trip to the Middle East. [REDACTED]

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According to Reuters, *Pravda* yesterday said the President's trip was designed to strengthen US interests in the Middle East following "the collapse of the pro-American regime in Iran." *Izvestiya* asserted that the Iranian revolution had increased Arab resistance to an Israeli-Egyptian peace settlement. Other commentary portrays the President's visit as a desperate effort to sign a separate treaty to protect US interests in the Middle East. The dispatch of the aircraft carrier *Constellation* is being cited as an example of US willingness to use force to protect its oil supplies. [REDACTED]

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In one particularly ominous roundup, Moscow radio--broadcasting in Persian to Iran--cited a PLO spokesman as stating that the Iranian "victory" was a warning to those reactionary circles who depend on the US. Although President Sadat was singled out, it was clear that the warning extended to others. The Iranian experience, the broadcast stated, would "result in the overthrow of those regimes that have close relations with Zionism and American imperialism." [REDACTED]

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The central theme that runs through the Soviet commentary, however, is that there is an overwhelming anti-imperialist trend in the Middle East. The point that the Soviets appear to be trying to make with their audience is that it is senseless to resist this trend. Although this message is consistent with the general thrust of Soviet propaganda since the fall of the Shah, the treatment is not always consistent. The Soviets say "imperialism" is on the wane in the Middle East and at the same time warn that the US is establishing a new strategic bridgehead. [REDACTED]

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IRAN: Radicalizing the Revolution

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//Ayatollah Khomeini's main Islamic revolutionary committee has ordered the arrest of all senior government officials connected with the Shah's regime, [REDACTED]

[REDACTED] Local Islamic committees have already begun rounding up officials. Khomeini's decision illustrates both the rapidly diminishing authority of Prime Minister Bazargan's weak government and the growing radicalization of the Iranian revolution.// [REDACTED]

//Since his return to Qom last week, Khomeini has become increasingly strident in demanding the total reorientation of Iran toward a strict Islamic theocracy. [REDACTED]

[REDACTED] the number of executions is much higher than announced.// [REDACTED]

//Khomeini's open criticism of Bazargan and his government on Wednesday has encouraged extremists to continue to take the law into their own hands. Incidents of random violence are continuing as armed bands roam Tehran. Gunfire around the US Embassy is frequent. In Ahvaz, the center of the oil industry, [REDACTED] leftist vigilantes have begun terrorizing foreigners.// [REDACTED]

Leftist groups like the Chariks are certain to take advantage of the situation by invoking Khomeini's name to attack the Bazargan government. At the same time, many middle class and professional Iranians who are alarmed by Khomeini's actions are likely to ally themselves with the left as the only viable alternative. [REDACTED]

Khomeini's actions and the political factionalization are rapidly reducing the chances that a relatively moderate government can survive in Iran. Although Bazargan may try to hold on, his resignation or removal could come at any time. [REDACTED]

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FRANCE: Dispute Over Economic Program

The backlash against the French Government's policy of revamping French industry to improve its international competitiveness has provoked a major test of political will between government and Parliament. The Gaullist Party has harshly attacked the government's economic program and has joined the left opposition in calling for a special session of Parliament on unemployment. Although President Giscard has agreed to call such a session later this month, he continues to voice support for Prime Minister Barre, who constantly reiterates his refusal to change present policy.

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Barre's insistence on treating unemployment, now totaling over 1.3 million, as primarily an economic problem and his blunt inflexibility has led some Gaullist deputies to call openly for his resignation. Demonstrations against unemployment, some of them violent, have been taking place in various parts of France--especially in the steel center of Lorraine--and deputies are having increasing difficulty justifying their support of the government and its policies to their constituents.

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Gaullist leader Chirac, who would like to take the presidency from Giscard in 1981, has been trying to distance himself from the unpopular Barre policies, while at the same time asserting that he has no intention of bringing down the government. Elected only a year ago as part of a center-right coalition hostile to the left's program, the Gaullists would surely be blamed for bringing down the government and giving a second chance to the left, which although deeply divided, could still pose a real electoral threat.

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The Barre government approaches the special session of Parliament later this month and the regular session in April without a parliamentary consensus and, in fact, with a potentially hostile one. The US Embassy in Paris notes that it will be difficult for the government to reverse that situation without endangering important elements of its economic program.

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USSR: Gas Exports

The four-month-old cutoff in Iranian gas deliveries to the USSR does not appear to have caused a noticeable reduction in Soviet gas deliveries to either Eastern or Western Europe. The halt in Iranian gas shipments has, however, forced Moscow to do some belt tightening at home. [REDACTED]

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The USSR has been importing gas from Iran since 1970. Deliveries, which normally run about 950 million cubic feet per day (equivalent to 160,000 barrels a day of oil), have virtually ceased since last November. Moscow has opted to maintain exports and make do with less at home, and the greatest burden of conservation appears to have fallen on the Armenian Republic. [REDACTED]

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Press reports of cuts in Soviet exports of gas to Eastern and Western Europe appear to be in error, although there have been some temporary shortfalls in deliveries because of severe weather. Such disruptions are not unusual during the winter, and the weather this year has been exceptionally severe. [REDACTED]

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US Embassy reporting from Warsaw indicates that Soviet gas deliveries to Poland are running at expected levels. The Orenburg pipeline, formally dedicated last December, is now delivering a small amount of gas to Eastern Europe. The Embassy also states that gas deliveries to Austria, France, West Germany, and Italy are normal. [REDACTED]

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Although Soviet deliveries to Finland in the last two weeks of February were about 20 percent below the planned rate, their return to the planned rate earlier this month suggests that the lag was due to the weather. In any event, Finnish demand for gas has been weak, resulting in a 25-percent cut in planned deliveries from the levels called for in the 20-year protocol between Finland and the USSR. [REDACTED]

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ALGERIA: New Cabinet Appointments

President Chadli Bendjedid named a new government yesterday, one month after he succeeded Houari Boumedienne as President. He appointed Colonel Mohamed Abdelghani, one of the regime's key political figures, as Prime Minister. Abdelghani, 51, is a former member of the dissolved eight-man Revolutionary Council that, together with key military officers, engineered the presidential nomination of Bendjedid. Abdelghani evidently retains his post as Interior Minister which, together with the post of Prime Minister, would give him considerable power. Mohamed Benyahia, an ally of National Liberation Front party coordinator Mohamed Yahiaoui, was named Foreign Minister. The appointment suggests that Yahiaoui, Bendjedid's chief contender for the presidential nomination and presumed to be in decline, still wields influence. The key posts of defense chief and armed forces chief of staff were not mentioned in the press announcement. These posts are expected to be conferred on other powerful military figures in the regime's collegial leadership or their associates.

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SPECIAL ANALYSIS

OPEC: Oil Price Outlook

Individual members of the Organization of Petroleum Exporting Countries continue to respond to the tight world oil market by raising crude prices, citing profiteering by some oil companies as justification. Spurred by the premiums offered in the spot market, many OPEC countries have increased official direct-sale prices well above the first-quarter level agreed to by OPEC at its ministerial meeting in December. These prices now roughly approximate the levels previously scheduled for the fourth quarter of 1979. Other OPEC countries now indicate that they too will increase their second-quarter prices to at least fourth-quarter levels, or \$14.54 for OPEC benchmark crude. Countries that are not OPEC members are also raising prices. [REDACTED]

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With the cutoff of Iranian crude exports at the end of December 1978, prices on the relatively small volumes of crude traded on the spot market raced ahead of the new OPEC price levels; some premiums reached more than \$10 per barrel. The initial response of the OPEC member countries was to move uncommitted volumes of crude into the spot market. Iraq reportedly began to offer spot crude at \$19 per barrel--about \$6 above its official sale price. Libya announced *force majeure* cuts of 50,000 to 60,000 barrels a day in oil it had contracted to sell and apparently has offered at least some of this oil on the spot market. Both Abu Dhabi and Qatar conducted "auctions" where they obtained premiums of \$4 to \$6 per barrel. [REDACTED]

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//In late January, Saudi Arabia became the first country officially to adjust prices on a substantial volume of its crude. It announced that it would restrict output from the ARAMCO concession area to 9.5 million barrels a day in the first quarter and charge fourth-quarter prices for the extra 1 million barrels being produced over the Saudi 8.5-million-barrel ceiling. Following the Saudi move, three other Persian Gulf producers as well as Iraq and Libya announced price increases or surcharges of 84 cents to \$1.38 per barrel, and

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Venezuela increased its fuel oil prices. Iraq and Ecuador have begun to renegotiate contract prices. [REDACTED]

OPEC has called a consultative meeting for 26 March to discuss the current world oil market. The consultative meeting can easily be transformed to an extraordinary conference by the approval of a simple majority of member countries if the need to ratify a formal decision on prices arises. [REDACTED]

During the next few weeks, the market will be greatly influenced by the amount of oil Iran exports, by whether Iran succeeds in obtaining the \$18 to \$20 per barrel it is seeking, and by how Saudi Arabia responds to the resumption of Iranian exports. Toward midyear, the market will also begin to be affected by changes in demand expectations. A number of forecasters now believe economic growth in the industrial countries later this year is likely to be slower than had been expected before the Iranian political upheaval. Lower growth plus government-sponsored conservation measures would reduce the expected demand for oil. [REDACTED]

In the wake of Iran's announcement that it would resume exporting crude, spot market prices were beginning to stabilize. They even declined slightly last week, although they continue to run significantly above official levels. Increased Iranian output could influence the Saudis to cut their output in conformity with their previously announced 8.5-million-barrel-a-day ceiling for 1979. Such a move would maintain or even increase price pressures in the oil market. [REDACTED]

Crude oil exporters that are not members of OPEC, as in the past, are raising their prices in line with, and sometimes more than, OPEC prices. North Sea light crude prices, for example, were increased an average 11 percent on 1 January 1979 compared with increases of between 5 and 7 percent for competitive Algerian, Nigerian, and Libyan crudes. [REDACTED]

//African and North Sea prices may "leap-frog" each other in the coming months. The African cartel members have warned the North Sea producers that further increases greater than those set by OPEC could result in yet another round of African increases. North Sea crude

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sellers, however, apparently regard the first quarter increase as a restoration of parity with the African prices, and indicate that they will raise prices in line with any other OPEC increase. Many North Sea crude contracts have price levels tied to those set by the three major African OPEC members. The market for light crudes is particularly tight and would probably be able to support price increases above those applied on heavier crudes.// [REDACTED]

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//Several other non-OPEC exporters have also announced crude oil price increases. These include:

- The USSR, which raised crude oil prices by \$1.41 per barrel to about \$14.70 effective 1 March.
- Malaysia, which increased its crude prices between \$1.11 and \$1.16 per barrel--an increase of about 7.5 percent--effective 1 March.
- Mexico, which has announced that it will adjust second quarter prices to reflect any OPEC price changes.// [REDACTED]

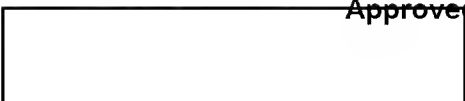
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